

ADMINISTRATION AND FINANCE COMMITTEE

DATE: April 27, 2010

CALLED TO ORDER: 5:33 p.m.

ADJOURNED: 7:58 p.m.

ATTENDANCE

ATTENDING MEMBERS

Marilyn Pfisterer
Bob Cockrum
Susie Day
Maggie Lewis
Barbara Malone
Jackie Nytes
Joanne Sanders

ABSENT MEMBERS

AGENDA

PROPOSAL NO. 119, 2010 - determines the need to lease approximately 7,056 square feet of space at 1349 South Tibbs Avenue for use by the Warrant Section of the Law Enforcement Division of the County Sheriff

"Strike"

Vote: 7-0

Presentation on Enterprise-Wide IT Consolidation Study - Glen Baker, Chief Information Officer, Information Services Agency

Presentation on proposal to transfer the water and wastewater systems to Citizens Energy Group - Chris Cotterill, Chief of Staff, Mayor's Office and Carey Lykins, President and CEO of Citizens Energy Group

ADMINISTRATION AND FINANCE COMMITTEE

The Administration and Finance Committee of the City-County Council met on Tuesday, April 27, 2010. Chairwoman Marilyn Pfisterer called the meeting to order at 5:33 p.m. with the following members present: Bob Cockrum, Susie Day, Maggie Lewis, Barbara Malone, Jackie Nytes, and Joanne Sanders. Also representing Council staff Chief Financial Officer Jim Steele.

PROPOSAL NO. 119, 2010 - determines the need to lease approximately 7,056 square feet of space at 1349 South Tibbs Avenue for use by the Warrant Section of the Law Enforcement Division of the County Sheriff

Chairwoman Pfisterer said that she was asked to strike this proposal by the Sheriff's Department.

Councillor Nytes moved, seconded by Councillor Day, to "Strike" Proposal No. 119, 2010. The motion carried by a vote of 5-0.

Presentation on Enterprise-Wide IT Consolidation Study;

Mr. Baker, and Michael Rubin, Senior Business Consultant, B. C. Forward, gave a presentation of the Enterprise-Wide IT Consolidation Study, which is attached as Exhibit A. Some key points are:

- The first approach for IT consolidation is to develop an initial high-level profile for each of the departments and agencies within the city and county to see if they are candidates for consolidation.
- At the end of the study, B.C. Forward will deliver the findings and recommendations to the IT Board and the City-County Council.
- The elevated entities named in Proposal No. 475, 2009 constitute the bulk of the elevated entities, and they consume significant technology resources outside of the Information Services Area (ISA).
- The next step in the study is to schedule and conduct preliminary interviews, collect data, and distribute questionnaires that will lead to developing detailed technology profiles for the elevated entities.

Mr. Baker said that ISA has allocated some base funds to secure a partnership with a trusted agency to provide objective un-biased leadership for this project. He said that the partner is B. C. Forward.

Councillor Nytes asked what entities will not be included in the consolidation study. Mr. Baker said that the libraries, Airport Authority, the public schools, and Health and Hospital will not be included in that study. He said that these entities are large enough that they could conduct a study like this on their own.

Chairwoman Pfisterer asked when the committee will receive the next update. Mr. Baker said they will have something very concrete in June of this year.

Presentation on proposal to transfer the water and wastewater systems to Citizens Energy Group

[Clerk's note: This presentation is attached as Exhibit B]

Mr. Cotterill said that Marion County is in a situation where the water rates are increasing, due to a variety of decisions the City has made and future need for the water and wastewater systems. The sewer side rates are projected to increase as much as 400 percent because of an agreement the City entered into in 2006 or 2007 with the Federal Government that requires billions of dollars to be invested into the wastewater system. The water system needs to get past variable rate debt, continue to invest in the system, and pay contractors, which requires rate increases. He said the City also has an infrastructure deficit that is well-known to all of the Council. He said that because of this situation Mayor Greg Ballard has come up with a proposal that has mitigated rates upwards of 25 percent, that allows an up-front payment to be invested in the infrastructure around the city, and, if passed, will lead to thousands of jobs. He said that this will be a transfer of the water and wastewater systems to the non-profit charitable trust operating as Citizens Energy Group.

Carey Lykins, Chief Executive Officer (CEO), Citizens Energy Group, said that they have operated as a public charitable trust for more than a century in Indianapolis. He said they exist for the purpose of providing energy and utility related services to benefit the citizens at a safe and reliable cost. Mr. Lykins said they also takes care of the steam and chill water distribution systems that sever most of the major facilities of downtown Indianapolis. This proposal is to bring the water and wastewater utilities into the Public Charitable Trust as sister utilities to the gas and steam operations. He said that this proposal would ensure local operation of these utilities only for the benefit of the citizens of Indianapolis. This proposal offers the best economic development opportunity for the City, and Citizens Energy Group offers the lowest rates that are available to the citizens of Indianapolis. Mr. Lykins said that they operate like a not-for-profit and the rates are set by the Indiana Utility Repertory Commission. By having these five utility operations under the umbrella of the Trust, they will be able to create more savings. He said that their model is to provide average rates 25percent lower than any other alternative, including continued ownership by the City.

Michael Lane, R.W. Beck, gave a separate presentation, which is attached as Exhibit C. Some key points are:

- The Fair Market Value (FMV) assumes a third-party purchaser and what a typical entity would be willing to pay for the assets.
- The cost approach of the FMV appraisal considers the cost to replace existing assets, less the accumulated depreciation. The market approach involves the review of recent sales of similar facilities between willing buyers and willing

sellers. The income approach is the present work of all future benefits derived from ownership.

- In the income approach scenarios, the rates associated with the discounted cash flow models are higher than the rates that are included in the Memorandum of Understanding (MOU) for Citizens Gas.
- R W Beck's opinion of FMV on the low-end is a cost of \$1.9 million, and on the high end the cost will be \$2.2 million.

Mr. Lane said that the results of the analysis for the waterworks system is \$4.8 billion, with the depreciation cost of \$2.7 billion, and the wastewater system cost is \$8.4 billion, with the depreciation cost of \$6.3 billion. He said that the total replacement cost would be \$13.3 billion, with the depreciation cost of \$9 billion.

Chairwoman Pfisterer asked if any of these considerations included any debt or debt service. Mr. Lane answered in the negative. He said that the debt associated with the waterworks system is \$918,870 million, and the debt associated with wastewater is \$552,442 million, for a combined total of \$1.47 billion.

Councillor Nytes asked for a comparison of how the process was when Citizen Energy bought the chilled water plant. Mr. Lykins said that he would not compare the process to this kind of evaluation. He said that the approach then was very similar to the approach now, which was to look at comparables in the context of district energy systems. Councillor Nytes asked if there are any other comparables in the Mid-West. Mr. Lykins said that the only comparable that they were able to find was 10 years old, which is too old to rely on. Ray Kljajic, City Group, said that they disagree with Mr. Lykins about the use of multiples. He said that there was a multiple generated as a matter of earnings before interest, taxes, and depreciation (EBITDA) to the city's purchase of the water company. Mr. Kljajic said that the FMV would best describe their approach to this analysis. Councillor Nytes asked if the previous sale of the water company is ok relevant comparable in this discussion. Mr. Lane said that any previous sale of that asset is a relevant comparable, but it is up to the appraiser to determine whether that comparable should be used in forming the value. Mr. Cotterill said that there are different ways to value this transition that could maybe lead to higher rates and a higher up-front payment, or lower rates and a lower up-front payment.

Mr. Kljajic said that he has worked with the public sector for 32 years in all aspects of infrastructure, most recently with the expansion of public-private partnerships. He said that this transaction is categorized as a public-public partnership, because there are two public parties entering into a transition, which also makes doing comparables and multipliers different. He said that the City Group perspective is that it is not just the price that matters, but it is also the governing structure that the City will inherit as part of the transfer. He said that it is making sure that their operating platform can deliver what they promised, and lastly making sure that value is not destroyed with profit capital. The administration wanted focus on the governance, the operating platform and not to destroying value. He said that the City has \$1.4 billion worth of tax exempt debt. If this

had to be re-financed, it would be re-financed at a much higher interest cost and this would destroy a lot of value. Mr. Kljajic said that if they were to find an ideal buyer, it would be an entity that is entrepreneurial, bottom-line oriented, has a management team that has a strong reputation and track record, and has a low-cost capital. Mr. Kljajic said that Citizens Energy Group meets these qualifications. He said that City Group is pitching ideals just like Citizens Energy Group all around the country, because it will allow communities to transform and save the citizens a great deal of money. He said that the City now has total public control with United Water and Veolia Water as contractors, but it has not worked as well as it should have and needs improvement. He said that they did a Request for Expression of Interest (REI), which was sent to contractors, engineers, private equity firms, and a number of other entities. They received 24 responses and made sure that the respondents knew what the goals were. He said that the final structures were to do a municipal hybrid, which is to create a new non-for-profit and put water and sewer in that structure and take advantage of those synergies. He said that Citizens Energy Group was the other large utility operation in town and the goal was to create something that is highly rated, highly regarded, and highly efficient. He said that this idea should be viewed and analyzed by Indianapolis Power and Light Company.

Councillor Nytes asked how City Group would compare a contrast of the current governance structure and how it has ended up functioning to the idea of long-term sustainable government. Mr. Kljajic said his view is to have an innovative entrepreneurial management that understands the bottom-line, and has a reasonably conservative orientation. He said that when he worked on the public-private partnerships, they were very aggressive financial structures that are designed for leverage buyouts. He said that the biggest friction points were how conservative they were on financial management.

Councillor Nytes asked why the governing structure that is currently in place has not worked correctly. Mr. Kljajic said that the City had a governing structure that did not match-up with the management contract and how those contracts were designed. He said that the ideal structure is to create government sponsored enterprises with professional management, with board members that are professionally trained or have a specialty in the utility area, and with some citizens on the board as well.

Councillor Sanders said that the waterworks board has been called out, but it was an entity that was created and some of the oversight that should have come from the administration may have been stifled by this process. Mr. Kljajic said that from talking to everyone involved in the process, the problems pre-date the current administration. He said that participants were very excited about this process because they looked forward to a better governing structure. Mr. Cotterill said that the position of this administration has not been the issue of who made the decisions or when they were made, but whether or not the structure was appropriate and a perfect compromise.

Mr. Kljajic said that when an enterprise takes advantage of synergy savings, most regulatory commissions are not going to let the owner take all those savings. The utility commissions usually make the enterprise give a portion of that back to the ratepayers. He said that they are talking about taking the savings from combining three utilities and giving a portion of those savings to the ratepayers, and then also using the other portion of those savings for infrastructure. He said that it is important to know that they decided not to sell this utility to United Water or Veolia Water or any other water company because it is a more expensive option. He said that those companies fully endorsed the municipal hybrid process, because they want to be partners in that process if possible.

Chairwoman Pfisterer asked if the higher cost of debt transferred into higher rates for the ratepayers. Mr. Kljajic answered in the affirmative. He said that the \$1.4 million of debt that is outstanding would have to be immediately redeemed under the Internal Revenue Service (IRS) code. He said that, recently when the City sold the refinancing on the water system, they included amendments in the bond indentures. Therefore, should the City decide to transfer the assets to Citizens Energy Group, or to create a new entity similar to Citizens, those transfers could happen without having any impact on the outstanding debt.

Councillor Cockrum asked if this transition will change the method of operation with the way that the water company handles business with the customers who do not have city water, but pay for hook-ups. Mr. Lane said they will very much be interested in achieving control growth in the system. He said that he has not discussed whether or not they will take a different approach to what has been the historical process.

Councillor Cockrum asked if this overall transition will promote more water service at a cheaper rate. Mr. Lane said that his approach will promote growth. Councillor Cockrum asked if this proposal includes the stormwater systems. Mr. Cotterill said that stormwater systems are separate and would be better explained by David Sherman, Director of the Department of Public Works (DPW). Mr. Sherman said that they feel that the stormwater utility needs to be retained, mostly because there is a lot of work that needs to be taken care of and they need to determine the value of the stormwater system.

Councillor Malone asked if the municipal hybrids are a possible scenario. Mr. Cotterill said that they looked at a few broad options, which were to do nothing or to sell the water company to a private entity. The other options were to form a municipal hybrid structure where water and wastewater would be combined under some other non-profit structure. He said that what they saw during the REI process was that combining the two current entities, United Water and Veolia Water, would present some synergies of roughly \$6 to \$7 million annually. But it was when water and wastewater were put with the other utilities managed by Citizens Gas, that the projected savings are much higher.

Councillor Day asked if things go as planned, how much money will be available for street and sidewalk construction in 2010. Mr. Cotterill said that there are different timings to the funds under the proposal, partly to have the minimal impact to the

ratepayers, but also to get money sooner to invest in infrastructure. He said that with this proposal, various funds are unleashed and the first part is a Payment in Lieu of Taxes (PILOT) that is monetized, depending on what the bond market would allow. It is estimated to be \$140 million within 30 to 60 days of Council approval of an ordinance financing the PILOT. He said that is if the ordinance is filed with the Council today. He said that there is a \$262 million payment from Citizens Energy Group that will be made in two parts. There would be a \$170 million payment at closing, which would occur shortly after the Indiana Utility Regulatory Commission (IURC) approves. He said that the remainder of the \$262 million would be received later. Finally, there is a \$50 to \$60 million wastewater fund that is currently obligated to the asset, which will be available for the Council to appropriate upon closing.

Councillor Lewis asked how the Council will be insured that the PILOT funds will be used for street and sidewalk repairs. Mr. Cotterill said that the proposal may need to be more detailed and they do not have a problem with that type of change.

Chairwoman Pfisterer asked who will pay for the \$140 million, when it obtained who will pay for those funds. Mr. Lane said that \$140 million PILOT funds are a bond issue that the City would sell. The security for those bonds would be the future stream of PILOT payments coming to the city that would pay the debt service. He said that those PILOT payments would go into customer rates. Citizens Energy Group will be paying the PILOT to the City and the wastewater customers will pay the PILOT to Citizens Energy Group over a period of time. Mr. Lane said the other kind of debt issue is bonds that would be sold by Citizens Energy Group in two different sales to meet the purchase price of the proposal. He said they would sale \$170 million worth of bonds at closing, and then sale \$92 million worth of bonds in October of 2011. He said that they proposed to use Build America bonds, which will need to be paid with debt service of \$13 to \$17 million a year. He said that they will ask to put in wastewater rates, which requires approval from the IURC. He said that the third financing key is the expected annual savings of over \$40 million per year. Those savings will be enjoyed by customers of gas, steam, water, and wastewater, but predominately from wastewater. Chairwoman Pfisterer asked if there is a cap on the Build American bonds. Mr. Lane said that there will not be any problems with access to that market. He said that market has more money available to more buyers today than the traditional tax market. Chairwoman Pfisterer asked what the advantage is of using the Build America bonds is. Mr. Lane said that it is a lower interest cost.

Councillor Nytes asked if the real savings will come from the combination of the five utilities. Mr. Lane answered in the affirmative. Councillor Nytes asked how the City will know that the \$40 million in savings was achieved once the deal is complete. Mr. Lane said that he does not have a problem with accountability and would not have a problem giving updates. Councillor Nytes asked what the outcome will be if the City asks to transfer these utilities to Citizens Energy Group and a task them to run the utilities as well as they possibly can without asking them to take on the debt, and return the funds back to the City. Mr. Cotterill said that it would be a rate reduction of an additional four

percent. Mr. Lane said that they ran that model and instead of rates being 25 percent lower, they were about 30 percent lower. Councillor Nytes asked if this type of rate reduction could fund additional infrastructure challenges in a community if necessary or possible. Mr. Cotterill answered in the affirmative. He said that this opportunity has been created because of a long analysis and a lot of support from a number of experienced people, and the Mayor is proposing to make this investment in infrastructure in lieu of a tax increase. He said that this would prevent future rate increases that ratepayers will not otherwise get the benefit of and make a big dent in the infrastructure deficit. Councillor Nytes said that this process would still spend money paid by citizens of Indianapolis to invest in infrastructure. She said that the Mayor is doing it through a set of transitions that move money around opposed to asking citizens to pay that bill upfront. Councillor Nytes said that the City will receive \$140 million worth of infrastructure work, but will end up paying \$312 million over 30 years. Chairwoman Pfisterer said that investing now, while construction cost is low, will provide a greater benefit.

Councillor Cockrum asked if the City of Indianapolis' water rates have been compared to water rates in other cities. Mr. Cotterill said that in preparation for the REI, they did those kinds of comparisons. He said, however, they did not do a normalization of the cost of living with each community relative to the rates.

Chairwoman Pfisterer asked how with the additional savings will be returned to the ratepayers. Mr. Lane said that it will be up to the IURC to make that decision, but however it is determined, it will be the ratepayers who will benefit.

Councillor Sanders said that it is hard for her to fathom that finding \$40 million in savings in the first couple of years will continue indefinitely. She asked if there is something that outlines how this savings will continue indefinitely. Mr. Lane said that there are inflationary pressures that will be felt overtime, but they are making the assumption that because of this combination, they will continue to enjoy the benefits of the scale. Even at a reduced base, they will be subject to inflationary kinds of pressures going forward. Councillor Sanders asked for a report of the scale in the near future. Mr. Lane agreed. Councillor Sanders said that she is concerned about the words that are being used. She said initially this project was a sale of the utilities and now the words being used to explain the sale is a transfer of the utilities. She said that the ratepayer will end up paying higher rates, but the rates will be lower than what they could be, and this will generate higher rates for curbs and sidewalks. Councillor Sanders said that the public should understand that their rates will pay for curbs and sidewalks and there may not be curbs and sidewalks in their area. Mr. Cotterill said that he would ask the public if they like paying as much as they are currently paying and if they would like to pay less; and of that savings that would be provided, if the citizens would approve of those funds being invested in roads in lieu of a tax increase. He said that the Mayor believes that the general public will support these requests. Councillor Sanders said that the rates will continue to increase, just at a lower level.

Councillor Lewis asked if there is a final purchase price. Mr. Lane said that \$262.6 million, will come from Citizens Energy Group, \$140 million from the PILOT, and the City also has a wastewater fund that is encumbered as long as the wastewater system is owned. Councillor Lewis asked if this body will see a final agreement prior to drafting the final ordinance. Mr. Cotterill answered in the affirmative. Councillor Lewis asked what has been the general feedback from the public regarding this deal. Mr. Lane said that the reactions that he receives depend on where a person is in the community. If they are an employee of Veolia Water they are wondering what will happen to their job, if they are contractor, they would like to know if they can bid on a prevailing wage basis. He said that the typical customer wonders how this deal will affect them and if there bill will be lower or not. They have also asked if their street will be paved or not.

Chairwoman Pfisterer said that from her involvement in the local town hall meetings, there seems to be a general level of conceptual comfort from the general public.

Councillor Sanders said that she and Councillor Vaughn are trying to make sure the Councillors are vetting everything that needs to be vetted. She said that they are changing the current schedule, so that everyone can reach the point where they have a definitive agreement.

Councillor Lewis said that the people in her district would like to know how they can be assured that the savings will be returned to her district. Mr. Cotterill said that savings will be driven on priorities. He said that DPW has a list and have been at the public meetings asking citizens what they see as their district's priority.

Councillor Sanders asked if the commitments that are in place for the Septic Tank Elimination Program are included in this deal, and if that commitment will be maintained. Mr. Lane answered in the affirmative.

Councillor Cockrum said that he has received a lot of feedback on the existing billing system, including both the water billing system and the sewer billing system. In the case of rental properties, the current system allows the renter to pay the water bill, but not the sewer bill, and then when the renter moves out, the property owner has to endure that sewer bill cost. Councillor Cockrum asked if this issue has been corrected. Mr. Lane answered in the affirmative. He said that they are looking at uncollectible revenue issues, with respect to the wastewater system, and they have found that the present process of trying to attach a lien to a property for unpaid wastewater bills is not effective. They are making plans to change this system.

Chairwoman Pfisterer asked how the resolution of the current rate case that is before the IURC will affect this final agreement. Mr. Lane said that he does not believe that it will have an effect on the agreement. He said that it is his expectation that following Council approval, they will immediately file for IURC approval of this transfer, which will include terms and conditions, as well as a rate for Citizens Energy Group. He said that

they would petition the IURC to allow Citizens Energy Group to charge the rates that have already been authorized.

Larry Vaughn, Concerned Clergy, said that Citizens Energy Group is not a Public Charitable Trust. Mr. Lane said that they do business under the name of Citizens Energy Group, but that is the commercial name under which they operate. He said that they are a Public Charitable Trust.

Councillor Nytes asked if there is some threshold at which this Council would rescind their approval of this deal. Mr. Cotterill said that when the total is added for the payment, it would be higher than \$425 million, and this was done on purpose. He said as they are going through a due-diligence process, they believe they have all the liabilities covered, but do not know with absolute certainty. He said that the total amount is \$467 million and there is a \$15 million incentive to ensure a smooth transition with United Water and Veolia Water. He said that they are working to make sure that all liabilities are covered.

Councillor Sanders said that she still has concerns about giving tacit approval in such a short time frame.

Mr. Steel said that he will meet with the Councillors individually to clarify some of the questions that were asked.

There being no further business, and upon motion duly made, the meeting was adjourned at 7:58 p.m.

Respectfully Submitted,

Marilyn Pfisterer, Chairwoman

MP/rjp



City/County IT Consolidation Study

Executive Briefing & Project Status

April 27, 2010



Study Approach

1. Conduct Enterprise Wide Information meetings to explain scope, approach and timing.
2. Develop initial departmentalized technology profiles for city/county agencies, departments and other entities.
3. Develop a shortened list of elevated entities with seeming potential for consolidation driven efficiencies.
4. Schedule and conduct preliminary interviews, collect data, and distribute questionnaires
5. Develop detailed technology profiles for elevated entities
6. Evaluate findings, define potential efficiencies, perform Cost/Benefit Analysis and develop recommendations
7. Communicate and discuss recommendations with elevated entities
8. Finalize study and deliver findings/recommendations to IT Board and City/County Council



Study Groupings and Recommendations

STUDY FOCUS AREA RECOMMENDATION	DEFINITION	COUNT
Elevated Entities	<p>Named in Proposal 475, 2009 or found to consume significant technology resources outside of ISA</p> <p><i>Recommendation: proceed with in-depth analysis</i></p>	8
Evaluated and Excluded Entities	<p>1). Known, limited or one-off, technology resources consumed outside of ISA with some potential for future, operational, projects to drive efficiency.</p> <p>2). Outside the original intent of Proposal 475, 2009</p> <p>3). No material technology resource consumption outside of ISA found</p> <p><i>Recommendation: pursue no further analysis</i></p>	33
Excluded Entities	Outside the original intent of Proposal 475, 2009	8



Included: Proceeding with in-depth analysis

#	DEPARTMENT/AGENCY/ENTITY
1	Metropolitan Emergency Communications Agency (MECA)
2	Indianapolis Metropolitan Police Department (Dept. of Public Safety)
3	Indianapolis Fire Department (Dept. of Public Safety)
4	Department of Public Works (DPW)
5	Telecom and Video Services Agency (TVSA)
6	Marion County Sherriff's Department (MCSD)
7	Marion Superior Courts
8	Marion County Capital Improvement Board (CIB)



Study Approach – Next Step

1. Conduct Enterprise Wide Information meetings to explain scope, approach and timing.
2. Develop initial departmentalized technology profiles for city/county agencies, departments and other entities.
3. Develop a shortened list of elevated entities with seeming potential for consolidation driven efficiencies.
4. Schedule and conduct preliminary interviews, collect data, and distribute questionnaires
5. Develop detailed technology profiles for elevated entities
6. Evaluate findings, define potential efficiencies, perform Cost/Benefit Analysis and develop recommendations
7. Communicate and discuss recommendations with elevated entities
8. Finalize study and deliver findings/recommendations to IT Board and City/County Council



QUESTIONS?



City of Indianapolis

Appraisal of the Waterworks and Wastewater Systems

April 27, 2010

R·W·BECK

An SAIC Company

Definition of Fair Market Value

Fair Market Value (FMV) is defined as:

The price, expressed in terms of cash equivalents, at which a property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

Assets under consideration include:

Waterworks

- 9 treatment plants (260 mgd capacity)
- 18 pump station
- 32 storage tanks
- 4,500 miles of pipelines
- 66 wells
- 4 dams
- 2 reservoirs

Wastewater

- 2 treatment plants
 - Belmont AWT (150 mgd, 300 mgd primary)
 - Southport AWT (125 mgd)
- 253 lift stations
- 3,300 miles of pipelines
- 62,000 manholes
- 71 siphons
- 161 CSO outfalls

FMV appraisal utilized three approaches

- Cost Approach
- Market Approach
- Income Approach



Cost Approach

The cost approach considers the cost to replace the existing assets less accumulated depreciation using two methods:

- Replacement Cost New Less Depreciation (RCNLD)
- Original Cost Less Depreciation (OCLD)

Cost Approach Results (\$ billions)

System	RCN	Depreciation	RCNLD	OCLD
Waterworks	4.88	2.72	2.16	0.53
Wastewater	8.40	6.30	2.10	0.70
Total	13.28	9.02	4.26	1.23

Market (Comparable Sales) Approach

The comparable sales method involves review of recent sales of similar facilities between a willing buyer and a willing seller, who are unrelated, as an indication of the general market price for such facilities

- Problematic when valuing utility property
- Comparables are difficult to find
- Rarely “arm’s length” transactions
- Not relied upon in this case

Income Approach

The present worth of future benefits derived from ownership

Discounted Cash Flow (DCF) Model using the following assumptions:

- Study period of 2009- 2025
- Inflation @ 2.0%
- Discount rates @ 8.15% (IOU) and 6% (public)
- PILOTS and Pay-Go held constant
- Historical operating data used for operating expense assumptions
- Land held for future use not included in valuation

Income Approach scenarios/results

Waterworks

- Public ownership, IURC regulated
- IOU ownership, IURC regulated

Value (\$M)

1,147

949

Wastewater

- Public ownership, IURC regulated
- Public ownership, 2009 rate curve
- Public ownership, 2007 rate curve
- IOU ownership, IURC regulated

1,223

1,081

1,900

981

Summary of Results (\$ millions)

Method	Waterworks	Wastewater	Total
Cost Approach			
RCNLD	2,159	2,100	4,259
OCLD	534	700	1,234
Income Approach			
Public-2007 Curve	NA	1,900	
Public-2009 Curve	NA	1,081	
Public-Regulated	1,147	1,223	2,370
IOU- Regulated	949	981	1,930

Our opinion of FMV is:

	<u>Low-End</u>	<u>High-End</u>
Waterworks	\$ 950 million	\$ 1,100 million
Wastewater	<u>\$ 980 million</u>	<u>\$ 1,100 million</u>
Total	\$1,930 million	\$ 2,200 million

Resulting in net equity of (\$millions):

	Waterworks & Wastewater	Waterworks & Wastewater
FMV	1,930	2,200
Less Existing Debt	<u>(1,471)</u>	<u>(1,471)</u>
Net Equity	459	729